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## TABLE OF CONTENTS

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### EXECUTIVE DIGEST

OVERVIEW.....	1
CONCLUSIONS .....	2
CORRECTIVE ACTIONS .....	2

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### INTRODUCTION

BACKGROUND .....	4
OBJECTIVES .....	5
SCOPE AND METHODOLOGY .....	5

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### FINDINGS AND RECOMMENDATIONS

FINDING 1: MAKING REQUESTS FOR REIMBURSEMENTS .....	7
FINDING 2: MAINTAINING PROPER ACCOUNTING RECORDS...	10

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RECOMMENDATIONS.....	12
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### EXHIBIT A - AGENCY RESPONSE

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## **EXECUTIVE DIGEST**

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### **OVERVIEW**

This report summarizes the results of the Office of the Inspector General's (OIG) audit of federal grant management practices by agencies of the District of Columbia. The District depends on federal grant funds to support its ability to provide a wide range of services and programs for its citizens. During fiscal year (FY) 1999 alone, the District received \$1.4 billion in federal grant funds, which accounted for more than one-fourth of the total revenues it receives. Therefore, properly accounting for grant funds and obtaining timely reimbursement for District funds expended is paramount if the District is to maximize the advantages of effective cash management. The Chief Financial Officer (CFO) of the District has the responsibility to ensure that policies governing the management of grant funds are effectively implemented.

This audit was conducted primarily to follow up on the conditions noted in a previous review conducted by the OIG. During 1998, the OIG conducted a review of the District's reports of grants received during FY 1995 through FY 1998 that were subject to the Federal Government's Cash Management Improvement Act of 1990 (CMIA). Our report, issued on July 26, 1999, disclosed that substantial funds were being lost because the District failed to timely request reimbursement for expenditures paid for federal grants in a timely manner. We found that because of this practice, the District lost \$6.6 million of interest that it would have otherwise earned had it applied for reimbursement from the Federal Government in a more timely fashion. As a result, District agencies were using its appropriated funds to pay grant expenses rather than requesting reimbursement from the Federal Government for funds that had been allocated for the purpose of operating grant programs. Based on our review, the U.S. Department of the Treasury allowed the District to amend previously submitted annual reports and be paid one-half -- \$3.3 million -- of the recalculated interest liability claim of \$ 6.6 million for the 4 years we reviewed.

The OIG also issued a Management Implication Report (MIR-00-A-01) on November 16, 1999, informing District agency heads of these conditions that may be occurring within their agencies and the necessity to make cash management a priority.

## **EXECUTIVE DIGEST**

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### **CONCLUSIONS**

Our audit disclosed that three out of the four agencies examined were not utilizing effective cash management practices for requesting reimbursement of grant funds once program expenditures had been made. As a result, the District is losing interest revenue on funds that were used to pay for federally funded programs. This condition continued to exist, despite current policies that require agencies apply for reimbursement soon after the expenditure is made. Ineffective cash management practices resulted in a potential loss of as much as \$935,000 of interest revenue on grant expenditures. Also, because one agency had not timely requested reimbursement for expenditures made, the agency lost an additional \$14,000 because the period available to request reimbursements for grant funds had expired. It was also found that the District paid nearly \$162,000 to an accounting firm to reconcile grant records of two of these agencies because of poor record keeping practices. Given the \$1.4 billion annual federal grant revenue that the District receives, substantial funds can be lost if this condition continues.

This report contains the details of the conditions we found to exist. Improvement by agency management, and more importantly, vigilant oversight by the CFO is critical to ensure compliance with the established cash management practices and that proper record keeping is maintained.

### **CORRECTIVE ACTIONS**

We directed 4 recommendations to the Directors of the Department of Human Services (DHS); the Department of Health (DOH); the Department of Employment Services (DOES); the Superintendent, District of Columbia Public Schools (DCPS); and the Deputy Chief Financial Officer, Office of Finance and Treasury (OFT) that represented actions considered necessary to address the concerns described above. (Please refer to the consolidated list of recommendations on page 11 of this report.) We asked that the Office of the Chief Financial Officer (OCFO) coordinate all addressees' comments and submit one formal reply to the OIG. The recommendations, in part, centered on:

- Complying with the requirements for effective cash management,
- Increasing monitoring efforts over cash management practices,
- Improving record keeping related to grant transactions, and
- Reporting the results of the reconciliation of DHS and DOH grant records to the OIG.

In his response to our draft report, the CFO continued to commit to improving cash management practices within the District of Columbia Government. Further, he detailed new processes put into effect to ensure agencies' compliance with the CMIA, and new responsibilities of the Office of Finance and Treasury to review and monitor cash management activities at all agencies.

In response to our calculations of interest lost due to untimely requests for reimbursement, the CFO cited that technical difficulties with the implementation of the Comprehensive Automated Personnel and Payroll System and the System of Accounting and Reporting prevented the timely reporting of financial activity and, as such, caused delays in the request for reimbursement for expenditures paid for the operation of federal grant programs. In order to determine the status of unreimbursed expenditures, the CFO performed an extensive review and reconciliation of reported receivable balances as of the end of FY 99. During this analysis it was identified that total unreimbursed expenditures, reported by the OIG as \$67.7 million included \$30 million of accrued expenditures and indirect costs. The CFO reported that the majority of the revised "unreimbursed" expenditures have been collected by the four agencies in question. Further, the CFO stated that they will continue to follow-up with agencies to ensure that the remaining percentage of outstanding receivables, totaling approximately \$3.4 million, will either be cancelled because they were incorrectly processed into the financial system or collected if determined to be valid.

Lastly, the CFO stated that the reconciliation performed by the external accounting firm, at a cost of approximately \$162,000, was not necessarily due to mismanagement by DOH and DHD officials. Further, the information obtained was useful for the correction of past problems that negatively impacted receivable balances. The OIG's intent was not to emphasize mismanagement by agency officials, but rather demonstrate the impact of not maintaining proper accounting records, and not properly accounting for grant expenditures. Had these agencies complied with grant policies and procedures, sound accounting principles, and cash management practices it is less likely the District would have lost the ability to collect approximately \$8 million of unreimbursed expenditures.

The OIG recognizes the improvements made by the OCFO, and acknowledges the results of its efforts to recover monies identified as unreimbursed and its commitment to continuously improving cash management practices within the District of Columbia. The full text of the CFO's response is included at Exhibit A.

## INTRODUCTION

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### **BACKGROUND**

The Government of the District of Columbia depends on grant funds to support a wide range of services and programs for the citizens of the District. During FY 1999, the District received \$1.4 billion of federal grant funds, which accounted for more than one-fourth of the total revenue received for the fiscal year.

The Chief Financial Officer of the District has the responsibility to ensure that effective policies over management of grant funds are carried out. The Office of the Chief Financial Officer (OCFO) has delegated this responsibility to the Office of Budget and Planning, the OFT, the Office of Grants Management and Development (OGMD), and the chief financial officers (CFOs) of the grantee agencies.

The Office of Budget and Planning is responsible for “loading” grant budget authority, processing grant variances, and monitoring agency grant spending. OFT is responsible for monitoring agency compliance with CMIA and ensuring timely reimbursement of these grant funds. Responsible personnel informed us that OFT mainly monitors timely requests for reimbursements for CMIA grants. Agency CFOs are ultimately responsible for ensuring that all grant funds are expended according to the relevant federal and District rules and regulations regarding grants. The OGMD works in concert with District leadership, agency management, and community-based organizations to maximize access to federal, foundation, business and other private resources that support the District’s program and policy priorities.

Grant cash management policies are outlined in the OGMD’s manual entitled, Grants Policies and Procedures Manual for the Government of the District of Columbia. This manual requires that collections for grant reimbursement should occur as closely as possible to the actual occurrence of cash disbursement. The manual further goes on to provide, in part, that:

- When District agencies fail to timely request reimbursement of grant funds from the Federal Government ... in a timely manner, the city has to advance the money to District agencies and wait to be reimbursed by the grantors. As a result, the city cannot earn interest on its own funds and thus potentially can lose hundreds of thousands of dollars in interest accumulation each year.

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## INTRODUCTION

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- Record keeping systems should provide mechanisms that ensure costs do not exceed the budgeted amounts for each program or activity. Grantees must also keep records that illustrate effective cash management. In general, grantees should support their financial transaction with purchase orders, contracts, time and attendance records, receipts or invoices, approvals of travel advances, check requests, and other pertinent supporting financial documents. The overall record keeping system should logically trace financial statement balances to produce an audit trail to be used for internal and external reviews.

### **OBJECTIVES**

The objectives of our audit were to determine whether District agencies were applying for reimbursement for grant expenditures in a timely manner and whether the cash management procedures set forth in the grants manual were being observed. This audit was a follow-up of the OIG's CMIA review that was complete in July 1999.

### **SCOPE AND METHODOLOGY**

We reviewed the cash management practices at four agencies for federal grants received in support of their programs. We examined grant expenditures and receivables outstanding during FY 1999 through February 2000 and the length of time for which they remained a receivable. We selected the four agencies based on the amount of the FY 1999 proposed grant revenues expected from the Federal Government. The agencies selected were DHS, DOH, DCPS, and DOES. Proposed federal grant revenues for FY 1999 for these agencies were \$198 million; \$679 million; \$95 million; and \$35 million, respectively, for a total of more than \$1 billion. This amount is more than 80 percent of the District's grant revenues for FY 1999.

To accomplish our audit objectives, we:

- reviewed the policies and procedural requirements as outlined in the District of Columbia's Grants Policies and Procedures Manual and reviewed individual agency grant cash management policy;
- reviewed copies of the grant report for agencies (DAFR D 520) as of February 2000 for each of the four agencies selected for audit;
- interviewed agency personnel regarding the receivable balances on DAFR D 520 to determine balances carried over from previous fiscal years and the reasons for this carryover;

- reviewed the agencies' cash management procedures and available reimbursement records for FY 1999 through February 2000; and
- determined the expenditure dates of, and aged, the uncollected balances to calculate the amount of potential interest revenue lost by the District due to untimely requests for reimbursements.

We performed our calculation of potential interest lost on appropriated funds using the average time expenditures remained without reimbursement and the CMIA interest rate for each of the fiscal years in question. The annualized interest rate with a fiscal year beginning on October 1, 1998, was 4.59 percent. For fiscal years other than FY 1999, we used the appropriate annualized rate for the respective fiscal years.

The audit was conducted in accordance with generally accepted government auditing standards.